

## **Special Feature**

### **Changes in Pricing since Deregulation**

The deregulation of the airline industry has inarguably led to consumer benefits. Overall fares are down since the days of regulation, and travelers enjoy more service to more destinations through the spread of both networks and point-to-point service. However, not all markets have benefited equally from deregulation. In this quarter's Special Feature, we use the Standard Industry Fare Level (SIFL) as an objective benchmark against which to compare average fares paid in markets with and without low-fare competition. This same exercise was done in the Special Feature from the second quarter of 1998. Our findings from that study over two years ago remain largely intact. Markets with low-fare competition have average fares at or below the SIFL level at all distances. Markets without adequate price competition from a low-fare carrier experience average fares below SIFL only in long-haul markets that benefit from connecting service.

With the deregulation of domestic air fares in 1978, the Airline Deregulation Act mandated that the Civil Aeronautics Board establish the Standard Industry Fare Level (SIFL), which was equivalent to the lowest unrestricted coach fare charged in each market under regulation. The SIFL, like regulated fares, is a distance-based formula that the CAB adjusted on a biannual basis to reflect changes in airline operating costs. Before the CAB's domestic fare authority lapsed at the end of 1982, the SIFL cost adjustments were used to establish fare level changes that the airlines could implement without CAB approval. The Department of Transportation has continued to update the SIFL on a biannual basis since the dissolution of the CAB. The Department and others have used the SIFL as a benchmark for comparing changes in fares since deregulation. More detailed information on the SIFL calculations can be found at <http://ostpxweb.dot.gov/aviation> under Domestic Aviation.

Average fares and SIFL have been calculated for three sets of distance-grouped markets: all top 1,000+ domestic city-pair markets, the subset of markets within the top 1,000+ that had low-fare competition<sup>1</sup>, and the subset of markets within the top 1,000+ that did not have low-fare competition. The attached chart shows average fares for each set of markets as a percentage of the corresponding SIFL measure. As we have observed in past Special Features, the presence of low-fare competition has an unmistakable impact on the average fare level. The difference is most notable in short-haul markets, where low-fare carriers have historically concentrated service.

When considering the aggregate of all top-1,000 markets the following observations are made:

---

<sup>1</sup> A low-fare market is defined as one in which a low-fare carrier transports at least ten percent of the Origin and Destination traffic. Low-fare carriers include: AirTran, American Trans Air, Frontier, JetBlue, National Airlines, Pro Air, Reno, Southwest, Spirit, Sun Country, Tower, and Vanguard.

- In top-1,000 markets up to 750 miles, average fares exceed SIFL by varying degrees. They range from 39% above SIFL (in the 0 to 250-mile range) to 3% above SIFL.<sup>2</sup>
- In top-1,000 markets over 750 miles, average fares fall below SIFL. They range from 70% to 90% of SIFL.

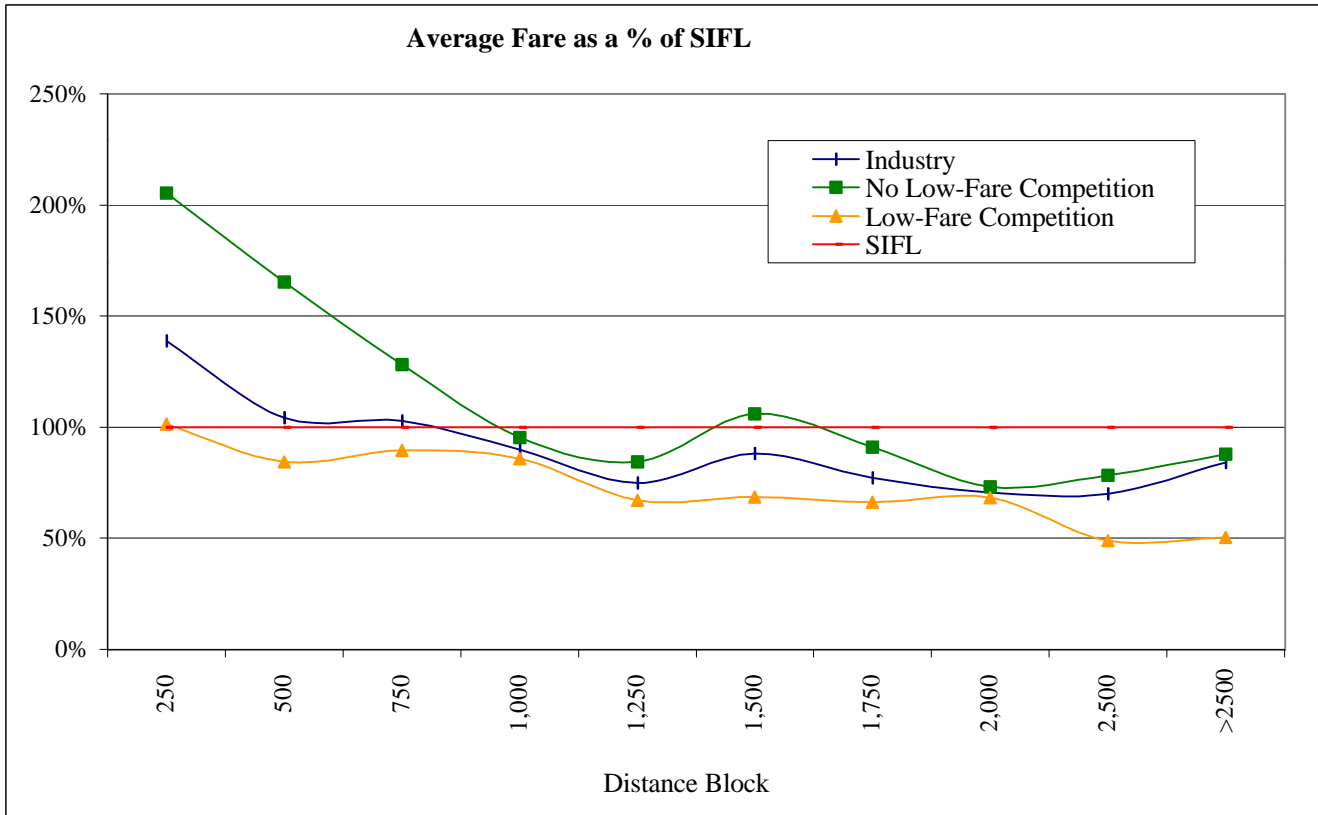
When the top-1,000 markets are divided according to the presence of low-fare competition, however, different trends emerge:

- In markets with low-fare competition average fares were below SIFL in all distance blocks with the exception of the under 250-mile block, where average fares were one percent higher than SIFL. In the two longest distance groupings, average fares were approximately half of SIFL.
- In markets without low-fare competition, average fares of markets that are less than 750 miles are at least 28% above SIFL. In city-pairs under 250 miles, average fares are double SIFL.
- The average fares in the longer-distance categories fall below SIFL, with one exception. In the 1251-1500 mileage block, the average fare is 6% above SIFL. In all other longer-haul categories, fares range from 73% to 95% of SIFL.
- An examination city-pairs in the 1251-1500 mileage block shows that seven of the top ten city-pairs with the highest average fare are Dallas/Ft. Worth markets to either California or the East Coast. A federal restriction called the Wright Amendment prevents Southwest from flying to any of those destinations from its base at Dallas' Love Field, thus limiting the potential for low-fare competition in those city-pairs.

---

<sup>2</sup> The components of the SIFL formula are uniformly adjusted to reflect overall changes in the level of operating costs, but not changes in the structure of airline operating costs. Airlines have had much greater freedom in managing costs since deregulation and the relative differences in the costs of operating short distance markets and long distances markets has likely changed.

Third Quarter 2001 Top 1,000+ Origin and Destination Markets, Average Fare by Distance Block vs SIFL



Distance Block										Over 2500
250										500
										750
										1000
										1250
										1500
										1750
										2000
										2500
All Top-1000+ Markets										
Avg Stage Length	212	376	645	911	1,137	1,448	1,690	1,963	2,361	2,640
Markets	59	249	226	218	172	78	80	63	107	27
Passengers	5,231,110	17,119,240	12,745,170	11,624,960	8,793,250	3,440,680	4,134,620	2,694,820	5,714,090	1,789,060
Avg Fare	\$ 107	\$ 114	\$ 160	\$ 176	\$ 174	\$ 244	\$ 240	\$ 248	\$ 286	\$ 377
SIFL	\$ 77	\$ 109	\$ 156	\$ 195	\$ 232	\$ 276	\$ 311	\$ 350	\$ 407	\$ 448
Avg Fare as a % of SIFL	139%	104%	103%	90%	75%	88%	77%	71%	70%	84%
Markets without a Low-Fare Competitor										
Avg Stage Length	200	391	668	933	1,170	1,453	1,700	1,999	2,380	2,639
Markets	31	106	103	117	96	43	45	39	75	21
Passengers	1,936,970	4,082,210	4,270,130	4,927,430	3,921,520	1,806,610	1,787,850	1,290,600	4,069,530	1,616,300
Avg Fare	\$ 154	\$ 186	\$ 204	\$ 189	\$ 199	\$ 293	\$ 285	\$ 260	\$ 322	\$ 393
SIFL	\$ 75	\$ 113	\$ 159	\$ 199	\$ 236	\$ 277	\$ 313	\$ 355	\$ 410	\$ 447
Avg Fare as a % of SIFL	205%	165%	128%	95%	84%	106%	91%	73%	78%	88%
Markets with a Low-Fare Competitor										
Avg Stage Length	218	371	633	894	1,110	1,441	1,683	1,931	2,313	2,654
Markets	28	143	123	101	76	35	35	24	32	6
Passengers	3,294,140	13,037,030	8,475,040	6,697,530	4,871,730	1,634,070	2,346,770	1,404,220	1,644,560	172,760
Avg Fare	\$ 80	\$ 92	\$ 138	\$ 165	\$ 153	\$ 189	\$ 206	\$ 236	\$ 196	\$ 226
SIFL	\$ 79	\$ 109	\$ 154	\$ 193	\$ 228	\$ 275	\$ 310	\$ 346	\$ 401	\$ 450
Avg Fare as a % of SIFL	101%	84%	90%	86%	67%	69%	66%	68%	49%	50%